

ANALYSIS OF ORIGINAL BILL

Author: Cedillo Analyst: Colin Stevens Bill Number: AB 2458

Related Bills: See Legislative History Telephone: 845-3036 Introduced Date: 2/20/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Los Angeles Live/Work Economic Revitalization Plan Credit

SUMMARY

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would allow a credit equal to a specified percentage of the property tax paid or incurred by a taxpayer who owns property participating in the Los Angeles Live/Work Economic Revitalization Plan (the Plan).

EFFECTIVE DATE

This bill would take effect upon enactment and would apply to taxable or income years beginning on or after January 1, 1998.

SPECIFIC FINDINGS

Federal and state laws allow a variety of special tax credits and deductions designed to promote or influence specific taxpayer behavior believed to generate social or economic benefits for the general public. Included in state and federal law are tax incentives designed to promote business, such as credits for research and development of, purchasing manufacturing equipment, the adoption of children, and providing child care facilities to employees. Neither state nor federal laws allow a tax credit for ad valorem property taxes. However, federal and state laws allow individuals an itemized deduction for the value of property taxes paid by taxpayers to state or local governments. Also, to the extent that property taxes are considered ordinary and necessary to conduct the taxpayer's business, these taxes are allowed as a deduction from gross income.

Existing state law provides general rules which apply to the division of credits among two or more taxpayers, a husband and wife, and partners. Unless specified, no tax credit may reduce regular tax below the tentative minimum tax (TMT).

Under the PITL and B&CTL, **this bill** would allow a credit to taxpayers who pay or incur ad valorem property tax on real property participating in the Los Angeles Live/Work Economic Revitalization Plan. The amount of the credit is equal to the applicable percentage of property tax paid.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___ X ___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO ___

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department Director Date
Gerald H. Goldberg 4/6/98

Agency Secretary Date

By: Date

This bill would define "applicable percentage" as:

- 100% of the ad valorem property tax for the first 10 years in which a real property "participated in the Plan,"
- 80% for year 11, 60% for year 12, 40% for year 13, 20% for year 14 and 0 for years 15 and after.

The **Los Angeles Live/Work Economic Revitalization Plan** is defined as a plan adopted and implemented by the City of Los Angeles for the conversion of existing real properties within that city to a mixed residential/commercial use.

Real property "participating in the Plan" is defined as a real property for which the assessee, for purposes of the ad valorem taxation of that property, has received and maintains a certification of eligibility from the Los Angeles adaptive reuse Live/Work Task Force.

Any unused credit may be carried forward until exhausted.

The general rules regarding the division of credits would apply, and the credit would not reduce regular tax below TMT for alternative minimum tax (AMT) purposes

Policy Considerations

This bill would allow a credit equal to 100% of the ad valorem property taxes paid. A 100% credit is unprecedented as a matter of tax policy. Additionally, this bill would not require that any deduction otherwise allowable be reduced by the credit amount. Therefore, it is likely that a taxpayer would receive tax benefits in excess of the amount of ad valorem taxes paid as a result of participation in the Plan.

As a dollar for dollar credit, this bill would use state revenues to reimburse ("credit") taxpayers for property taxes paid that benefit the City of Los Angeles.

The tax credit provision does not contain a sunset date. Sunset dates generally are provided to allow periodic review by the Legislature.

Implementation Considerations

In recent credits, the Legislature has limited the number of years the unused credit may be carried forward since most credits are exhausted in eight years. This bill permits an unlimited carryover period for any unused credit.

This bill uses, but does not define, the term "Los Angeles Adaptive Reuse Live/Work Task Force."

Technical Considerations

This bill limits the credit to taxes paid on real property participating in the Plan. However, the bill does not define or describe the basis on which property is certified as "participating in the plan."

This bill uses the term "taxpayer" to describe those eligible for this credit. However, it also uses the term "assessee" to describe the person that receives certification of participation in the plan. For purposes of clarity with respect to who may claim the credit, these terms should be clarified, and if appropriate, made consistent.

FISCAL IMPACT

Departmental Costs

If the implementation concerns are resolved, this bill is not expected to significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law and the Bank and Corporation Tax Law would depend on the amount of ad valorem property tax that is paid or incurred by a taxpayer during the taxable year with respect to real property participating in the Los Angeles Live/Work Economic Revitalization Plan.

For every \$100 million of assessed value of qualifying real property, this credit would result in revenue losses of approximately \$1 million. The ad valorem property tax rate is 1.05%. Specific information on the local property tax impact of existing or planned conversions/renovations is not available at this time. However, based on the success of existing programs in other areas, the potential growth of this project could escalate into much larger revenue losses in future years.

BOARD POSITION

Pending.